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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 002352

SIPDIS

NEA FOR BURNS/SATTERFIELD

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SUBJECT: EREZ INDUSTRIAL ESTATE: DAYS MAY BE LIMITED

Classified By: Ambassador Daniel C. Kurtzer, Reasons 1.4 (B) & (D)

1. (C) Summary: On April 21, the Israeli daily Haaretz reported that the IDF may close the Erez Industrial Estate (EIE) in response to a spate of recent terror attacks at the zone. GOI officials told Gaza Econoff that the GOI is split over whether the EIE should continue operating both in the short- and long-term, i.e. post-Gaza withdrawal. However, our contacts believe that the zone will/will likely re-open after Israeli Independence Day, April 27. Israeli and Palestinian investors with factories in the zone have received very little information to date on future plans. A meeting is scheduled between the GOI and Israeli investors for Sunday April 26. Palestinian investors, however, are completely out of the information loop. End Summary.

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Erez: Prime Target for Terrorists  
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2. (C) The Erez Industrial Estate (EIE) has been the target of several attacks since the beginning of the year. On January 14, a female suicide bomber killed four Israelis when she blew herself up at the entrance to the zone. On February 25, two Palestinian gunmen infiltrated the zone overnight and opened fire on GOI buildings near the entrance to the zone the following morning. One Israeli soldier was killed when the IDF engaged and killed the gunmen. On April 17, a suicide bomber who, according to Israeli sources, had a valid permit to work in the zone detonated his explosives inside the EIE killing himself and one Israeli border guard.

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GOI Response: Close the EIE?  
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3. (C) Throughout the course of the Intifada the GOI has closed the EIE only rarely, this despite almost daily mortar shells in the area. Following the terrorist attacks earlier this year, the GOI responded by closing the zone for a day or two only. After the April 17 terrorist attack, however, the GOI instituted a prolonged closure and the zone is not expected to re-open until after Israeli Independence Day at the earliest. On April 21, Israeli newspaper Ha,aretz quoted a senior IDF officer as saying, "It is quite possible we will have no choice but to close the industrial zone."8 The same article reported that IDF Chief of Staff Moshe (Boogie) Ya,alon visited the EIE on April 20 and said that the zone would not be re-opened until a suitable way of protecting soldiers is found.

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Working Level Says EIE Will  
Likely Re-open After Independence Day  
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4. (C) Lt. Colonel Isaac Gurvich, head of the Economic branch of the Office of the Coordinator of Government Activities in the Territories (COGAT), told Gaza econoff that notwithstanding the Haaretz report, "no decisions have been taken to close the zone."8 Gurvich said that the GOI was split with some, e.g. Ministry of Defense, advocating to close the EIE immediately and others, e.g. COGAT, arguing that it should be kept open for humanitarian/cooperation purposes. Gurvich said that difficult questions were being posed ) "Is it justifiable to put Israeli soldiers at risk to preserve jobs for Palestinians?"8 Gurvich noted that the soldiers are not guarding settlements and Israeli citizens, nor are they providing security for the Israeli/Gaza northern border, nor are they securing a significant economic asset.

5. (C) Gurvich said that if the final answer is yes, it makes sense to keep the zone open because it provides a livelihood for four to six thousand Palestinians and thus indirectly feeds 24,000 )36,000 individuals, then the issue turns on how to keep it open. How much is a reasonable amount of money to invest in security upgrades? These concerns were of course further complicated by the Gaza disengagement initiative. Gurvich said the GOI was "struggling" with two "momentums" ) "What happens to the EIE after separation and what do we do about terrorist attacks now?"8 He insisted that no final decisions had been reached on either of those two broad questions.

16. (C) Captain Joseph Levy, COGAT liaison for the Erez crossing, was firm in his belief that the EIE will re-open after Israeli Independence Day. Giving the on-the-ground perspective, Levy said that soldiers have received no orders to close the zone permanently or to begin preparations for a closure. Levy said, in fact, the opposite was true; soldiers have been instructed to review lessons learned from the April 17 terrorist attack and to make recommendations for security modifications. He said that his orders were to find the way8 to allow the zone to re-open. Levy insisted that the only reason why the zone remains closed is because the April 17 bomber used a new technique of only carrying plastic explosives which were undetectable by the metal scanners as opposed to the more typical nail-embedded explosives. Obviously this security gap would have to be addressed but the closure was not indicative of a policy decision to abandon the estate in his view.

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Business Owners in the Dark; Some Not  
Sticking Around to Wait for Answers  
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17. (C) Gaza Econoff called Um Hassem, a Palestinian woman who owns a textile factory in the zone, which exports clothing to Israel and the U.S., for her reaction to the Haaretz report of a possible permanent closure of the EIE. Hassem reacted with alarm and dismay and said that the GOI had not/not apprised Palestinian owners of any possible closure and that she was preparing to go back to work after Israeli Independence Day. (Note: The GOI makes very little differentiation between Palestinian factory owners and Palestinian day laborers. They use the same entrance/exit gates and are subject to all other security protocols. Owners have very little access to information and are not allowed into their factories when the zone is closed. End Note). Hassem beseeched the USG to intervene to save the livelihoods of the business owners and the thousands of Palestinians who work at the EIE every day.

18. (C) Kobi Cohen, President of the Erez Association of factory owners and himself the owner of five textile factories in the zone, told Gaza econoff that factory owners were very distressed. Cohen said that between April 20-22, fifteen Israeli owners had decided to close their businesses. (Note: Before this recent exodus, the EIE had 201 factories ) 97 Palestinian and 104 Israeli owned. End Note.) Cohen said that he tried to persuade them to stay but to no avail. Cohen said that the GOI had not told Israeli business owners that Erez would close, but rather that although it would do its best to keep it open it could offer no guarantees. Security would have to be evaluated on a day-by-day basis. Cohen said that he and other owners of course understood the security rationale but they could not run businesses under such circumstances. No one is able to meet their orders, he lamented. Cohen admitted that he also was actively considering shifting his factories inside Israel, despite having been born in Gaza. There is no future for Erez, he said. Things are getting worse, not better. So we have to be realistic.8

19. (C) Asked about his conversations with Palestinian business owners as the president of the owners association, Cohen said that it had been limited to some telephone contact since the Palestinian owners are not allowed in the zone during closure. Cohen opined that Palestinian owners would not leave barring a complete closure of the zone. Palestinians have few options, he said. If they leave Erez they will be forced to use Karni crossing for their imports and exports and Karni is not sufficiently reliable to sustain an export business to a demanding, competitive market.

110. (C) Cohen confirmed information passed to Gaza econoff by Gurvich that the GOI is planning to meet with Israeli investors on April 26. Gurvich said that the meeting is being organized by Deputy Director General, Foreign Trade Administration, Gabi Bar of the Ministry of Industry and Trade. According to Gurvich agenda items will include issues relating to improving security and compensation if the GOI decides it must close the EIE, either now or in the future after disengagement.

111. (C) Comment: We assess that the EIE will re-open some time after April 27. Clearly, however, its future is ambiguous, at best. As we consider ways to make Gaza economically viable in the immediate term and post-withdrawal, we will need to take a close look at the successes and failures of existing joint Israeli/Palestinian industrial estates; the mechanisms for guaranteeing security and a predictable operating business environment; labor access; and control over access to inputs and outputs, without which any business will fail.

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KURTZER